

PORT OF GRAYS HARBOR
Grays Harbor County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Public Funds Were Used For Personal Purposes And Accounting Records Were Falsified

Our audit, and a report submitted by the accounting firm of Deloitte & Touche, revealed numerous instances in which the port's senior marketing manager, Michael McKinney, spent public funds for personal purposes and falsified records in an attempt to conceal his activities. Federal funds were not involved in any of these instances.

Claims were made under the guise of promotional hosting or travel when, in fact, they were personal in nature. For example, Mr. McKinney incurred charges of \$15,630 at the Silver Frolics Nightclub and \$2,080 at the Crescent Cabaret while in New Orleans, Louisiana, during the period August 8-10, 1993. Mr. McKinney claimed these expenditures were for food and beverage while entertaining prospective clients of the port. Charge slips were altered to indicate "BEV" or beverage when in fact the charges were for monetary tokens and script to be used as payment for topless dancers. Furthermore, Mr. McKinney represented that he was entertaining clients of the port, however, persons listed as being entertained stated they were not in attendance. Mr. McKinney paid these charges himself when confronted by the port with evidence of the nature of the expenses.

Additionally, Mr. McKinney incurred charges at the Venus Bar in Copenhagen, Denmark, of \$967 and \$1,429 on June 8, 1992, purportedly for two separate dinners. One of the receipts had been altered and the date had been changed but it appeared that both charges were for the same day. He also incurred charges for dinners in Houston at the Men's Club Restaurant and the BBQ Restaurant of \$375, \$700, \$668, \$497, \$238, and \$1454 on various occasions. The Men's Club identified itself as an "entertainment club" and according to American Express Corporate Card Services both of these places are the same. Again, dates were altered on the receipts to indicate meals were eaten on different days when in fact most charges were for the same day. These charges were paid by the Port of Grays Harbor.

Mr. McKinney charged the port a total of \$253 on four occasions for what he described on his expense statement as seminars. In fact, the charges appear to have been for accupressure and massage therapy. The port paid these charges.

RCW 9A.60.020 states in part:

(1) A person is guilty of forgery if, with intent to defraud:

(a) He falsely makes, completes or alters a written instrument
or:

(b) He possesses, utters, disposes of, or puts off as true a
written instrument which he knows to be forged.

This situation appears to have been caused by Mr. McKinney's disregard for port policy and the port's failure to adequately review his claims for reimbursement.

We recommend the Port of Gray's Harbor seek recovery from Mr. McKinney for his personal expenses which were paid by the port and for audit costs related to the investigation. We further recommend the Washington State Office of the Attorney General and the Gray's Harbor County Prosecuting Attorney review this matter and take whatever action they deem necessary. Any compromise or settlement of this claim must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.260.

2. The Port Should Require Adequate Documentation Before Paying Travel Expense Claims

A report, commissioned by the port, and issued by the accounting firm of Deloitte & Touche, noted instances of incomplete or no documentation for some of the claims. All instances noted exceeded the port limit requiring documentation. The instances are as follows:

- Seventeen instances, totaling \$1,145.74, where charges were not supported by receipts. Of the 17, 11 were related to travel outside the United States totalling \$903.44. These 11 did not specify the functional currency of the amount claimed.
- Twenty-one instances, totaling \$10,847.40, where hotel charges were not supported by a detailed hotel room folio which would show all charges during the employees' stay. We noted that \$8,168.16 of these charges were incurred in Russia where detailed receipts may not be as common as other countries.
- Sixteen instances, totaling \$955.75, where the original American Express statement and original receipts turned in by the employee were missing.
- One hundred eighteen instances, totaling \$9,428.48, where we were unable to obtain the original American Express receipt describing the purpose of the expense.
- Fourteen instances, totaling \$2,232.25, where supplies or equipment were purchased on the American Express card, and paid by the port without the employee submitting a detailed receipt of what was purchased.
- An instance in August 1991, totaling \$254.41, where a detailed hotel receipt was submitted for the lodging of four guests for one night, however, the document did not state who it was that stayed at the hotel.
- A charge of \$481.27 on September 20, 1991, for a "Sony Walkman" paid by the port without a detailed receipt supporting the purchase. We were also unable to determine if the port had taken possession of the asset.
- Another charge on September 20, 1991, for \$478.00. This charge was for an airline ticket in which original documentation was unavailable. Upon obtaining a receipt copy of the charge, the ticket was purchased in the name of C. Logsdon. The port does not employ a C. Logsdon, and we were unable to determine why the port paid for an airline ticket for a nonemployee.
- Three instances, totalling \$306.81, for hotel "no show" charges. We were unable to determine an explanation for these charges or why the port paid for these expenses.
- In October of 1991, we noted an instance totaling \$75.50 for a "refreshment center late charge." This charge was not supported with a receipt nor an explanation of the charge.
- A charge of \$170.16 was made on December 16, 1991, for lodging at the Westin Hotel in Seattle claimed by the employee to be promotional hosting. However, there was no original documentation designating who stayed at the hotel. The employee claiming this expense, Mr. Michael McKinney, resides in the greater metropolitan Seattle area.

- A charge of \$114.69, dated January 6, 1992, was incurred at Issaquah Floral for a gift to Fritz Laven of "PCL." We were unable to obtain a detailed receipt of the items purchased and therefore unable to determine the purpose of this purchase.
- A charge of \$166.54 was made to Ticketmaster documented as "tickets to a play." The charge had no supporting documentation and we were unable to determine who attended the play.
- An instance occurred where the port paid for two separate airline tickets for which there was no original receipt submitted. A copy received revealed that on February 3, 1992, two tickets were purchased. One of these tickets, purchased through Delta Airlines, at a cost of \$360.53, was issued under the name of Carmen A. Logsdon. The itinerary included Toronto, Ontario, to Cincinnati, Ohio, to Louisville, Kentucky. The second ticket was issued by US Air in the name of M. McKinney at a cost of \$298.10. That itinerary included Louisville, to Pittsburgh, Pennsylvania, to Toronto. These tickets both appeared to be for a period when Mr. McKinney had already purchased a ticket on January 31, 1992, at a cost of \$1,293.52 for Seattle to Chicago to Louisville to Pittsburgh to Toronto. We noted that this ticket was issued through a travel agency which is customary port practice. The other two tickets were issued directly through the airlines.
- A charge of \$40.31 was incurred in March of 1992, for two travel tickets in London on British Rail. The supporting documentation did not identify the second person nor the purpose of the travel.
- On July 8, 1992, we noted a charge of \$395.14 for dinner at the Sea-Tac Red Lion. Although the charge was accompanied by an original receipt identifying the three people in attendance, one of the attendees was a port consultant (J. Ojala). The consultant may not be considered eligible for a promotional hosting expense.
- A charge of \$65.56 was incurred at Hiram's Restaurant in Seattle. Upon review of the original American Express receipt, we noted that the port employee did not put the name of the company of the other person in attendance on the receipt for this promotional hosting activity.
- A charge of \$55.00 on July 18, 1993, was made to American Airlines in Dallas, Texas. The port employee did not turn in an original receipt nor did he give an explanation for the charge. Upon obtaining the receipt copy, we noted the description stated "Miscellaneous Charge Order/ Prepaid Ticket Authority." We were unable to determine whether this expense was a valid port expense.
- A charge of \$61.70 was incurred at the Sea-Tac Hilton in Seattle dated August 7, 1993. The port employee did not submit an original receipt or the purpose for this expense. Upon obtaining a copy of the receipt with the American Express statement the description indicated lodging. We were unable to determine whether this expense was valid.
- A charge of \$120.00 was paid to United Airlines on July 19, 1993. This charge was not supported by a receipt from the port employee. Upon review of the receipt copy with the American Express statement, we noted the description stated as an "Unsupported Refund." We were unable to determine whether this was a valid expense.

- On September 12, 1993, a claim of \$90.00 was paid to Delta Airlines for an upgrade charge. We were unable to determine the purpose of the upgrade or which trip this was for. Therefore, we were unable to determine whether this charge was within port guidelines.
- There were two instances, totaling \$3,394.40, where the port paid for first class airline passage for a port employee.

All expenses reviewed on the American Express account which were paid by the port were done so without the employee transferring the charges onto an itemized expense voucher.

The port travel expense reimbursement policy states in part:

II A. Claims for expenses must be reported on an approved Port of Grays Harbor travel expense form.

Furthermore, the travel policy states in part:

II C. Items must be individually itemized on the claim form (i.e., each meal and each nights lodging should be separately recorded).

II D. All lodging expense, automobile rentals, public transportation (except taxicabs), and other items in excess of \$25.00, unless otherwise herein indicated, must be supported by a valid receipt.

III A. Transportation (covers private automobiles, public transportation, taxicabs or rented vehicles).

4. Airline fares: shall reflect the most direct and safe routing and the lowest available fare, within reason and considering travel schedule and other requirements of the employee. Premium fares shall be purchased only when a clear business purpose for the extra cost is demonstrated. Business class fares are authorized for international travel, as well as domestic flights of over four hours duration.

It appears that this problem evolved due to the port's lack of insistence on adequate documentation for travel related expenses as required by port policies.

We recommend the port enforce its policy of requiring adequate documentation of travel expense claims.

3. The Port Should Require Compliance With Its Promotional Hosting Policy

During our audit of the port's promotional hosting expenditures, we noted several deficiencies. In our review of American Express Charges, some expenditures did not appear to be allowable promotional hosting expenses. We also noted a number of other expenses that did not contain sufficient description of the purpose of the expense and the benefit to be gained by the port, making it difficult to determine if the charges were appropriate promotional hosting expenses.

Article VIII, Section 8 of the Washington State Constitution provides:

. . . use of public funds by port districts in such manner as may be prescribed by the legislature for industrial development or trade promotion and promotional hosting shall be deemed a public use for a public purpose

RCW 53.36.140 states in part:

Port commission shall adopt, in writing, rules and regulations governing promotional hosting expenditures by port employees or agents. Such rules shall identify officials and agents authorized to make such expenditures and the approved objectives of such expenditures

Bulletin No. 404 of the State Auditor's Office further defines promotional hosting as:

. . . furnishing customary meals, refreshments, lodging, transportation, or any combination of those items in connection with business meetings, social gatherings, ceremonies honoring persons or events, relating to the authorized business promotional activities of a port. Hosting may also include reasonable, customary and incidental entertainment, and souvenirs of nominal value, incident to such events. (Emphasis added.)

Bulletin No. 404 also states that:

. . . the basic standard for promotional hosting at public expense is that the promotional hosting is calculated to result in the public purpose, declared by the Washington State Constitution, of promoting industrial development or trade within the district. Exceptions will be taken to any hosting when its possible influence on industrial development or trade promotion is so indirect or tenuous that the hosting expenditure appears to be hosting for the sake of hosting.

The Port of Grays Harbor's Resolution 2114 states in part:

. . . hosting may take the form of providing customary meals, refreshments, lodging, transportation, gifts of appropriate value for the occasion, or any combination of these expenses in connection with a business meeting, social gathering, or ceremony related to the authorized business promotional activity.

Resolution 2114 further states:

All beneficiaries of promotional hosting expenditures by the Port shall be reasonably capable of influencing or controlling decisions with respect to the subject matters hereinafter mentioned, and the amount of

each expenditure shall be reasonable and appropriate in relation to the particular purpose of the pertinent promotional hosting. (Emphasis added.)

The above conditions occurred due to Mr. McKinney either lacking a clear understanding of or disregarding the guidelines and requirements governing promotional hosting expenditures. Consequently, expenditures were made that did not meet the criteria for promotional hosting and/or were not within the port's own policy guidelines.

On February 14, 1994, the port modified its promotional hosting procedures. The revision is more comprehensive and clearly establishes the rules for and regulations governing expenditures for promotional hosting.

We recommend that port officials sufficiently monitor the port's promotional hosting expenditures to ensure that they comply with statutory, regulatory laws, and the port's own policy guidelines.